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# Problems of Assessment and Management of Bank Financial Risks: Theoretical Approaches

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**Abstract:** In this article, the problems of assessment and management of bank financial risks are studied, the main tasks of bank risk management and the analysis of factors affecting their management are presented. At the end of the work, proposals and recommendations were formulated regarding the necessity of risk management of commercial banks and their criteria.

**Key words:** banking, financial risk, banking risks, banking service.

## INTRODUCTION

In the conditions of a market economy, the imbalance or instability of raw materials and financial markets and socio-economic processes, as well as the division of labor between countries and the deepening of financial and economic relations, create the need for effective risk management in commercial banks.

It is known that in the conditions of the market economy, the interest rates of loans and deposits change based on demand and supply, and also the activities of local financial institutions are closely connected with each other.

In addition, the financial and economic problem that occurred in one country directly and indirectly affects the financial and credit sector of another country. Such socio-economic processes cause a strong need for risk management in commercial banks.

## Main part

It should be noted that in recent years, the improvement of the market economy and the deepening of competition in our country, as well as the acceleration of the processes of economic integration of financial and economic relations with other countries and international financial organizations require effective risk management in commercial banks.

The main goal of bank risk management is to strengthen their financial stability, and achieving this goal includes a number of tasks. The main ones are presented in Figure 1.

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| - protection of interests of bank shareholders and clients; |
| - strengthening the trust of the population and clients in banks; |
| - prevention and minimization of financial losses and damages; |
| - increase the profit level of the bank and eliminate disputes regarding financial relations; |
| - to fulfill the established standards of economic regulations and ensure solvency. |

**Figure 1. The main tasks of risk management of commercial banks**

There are several tasks of risk management of commercial banks. We want to focus more on the task of protecting the interests of the bank's shareholders and clients. It is known that the initial amount of capital necessary for the establishment of banking activities is formed at the expense of shareholders' funds.

A legal entity or an individual invests its money as a shareholder of the bank to get additional profit. If these funds are not managed rationally and effectively, the shareholder will be deprived of the opportunity to receive additional profit.

The bank must have liquid funds to fulfill its obligations to customers. In order for the bank to have liquid funds, it is desirable to manage the relationship between liabilities and liquid funds effectively and rationally.

In order to achieve a positive result in any activity and economic relations in the conditions of market relations, it is very important to establish effective management. Banks are considered to be one of the important areas of the special (functional) economic sciences, which are the main link of the system of economic sciences, and in the conditions of the market economy, their activities, as well as financial resources, require effective management [1].

American economists E. Reed and R. Kotter expressed their opinion on the issue of risk management in passive operations of commercial banks: "By the 1980s, the deepening of the process of integration in banks, the creation of conditions for the cross-border flow of financial resources, and the increasing globalization of the economy were necessary to ensure bank liquidity and generate the necessary amount of profit. it is no longer enough to manage bank assets" [2].

Effective management of bank risks is focused on ensuring the stability of the base of their financial resources and the solidity of the solvency of borrowers. However, the implementation of this practice may put commercial banks at risk of facing a crisis.

For this reason, in the organization of effective management of banks' activities in crisis conditions, the main attention is paid to their risk management.

The need for bank risk management is clearly visible when assessing the level of influence of factors affecting bank risks. For this purpose, it is more effective to study these factors by classification.

In general, external and internal factors affecting bank risk management can be grouped as shown in the figure below (Figure 2).

Figure 2 shows that risk management of commercial banks can be divided into two factors, i.e. external and internal factors.

External factors affecting bank risk management include the instability of financial processes in international financial markets, changes in the financial situation of the country's foreign economic partners, and the country's foreign policy.

Also, as internal factors of bank risk management, it is possible to mention the fulfillment of obligations of banks to clients, the strengthening of mutual competition in the national economy, and the economic policy of the state.

In our opinion, each of the external and internal factors affecting bank risk management has a separate role in risk management, and it is appropriate to consider them separately.

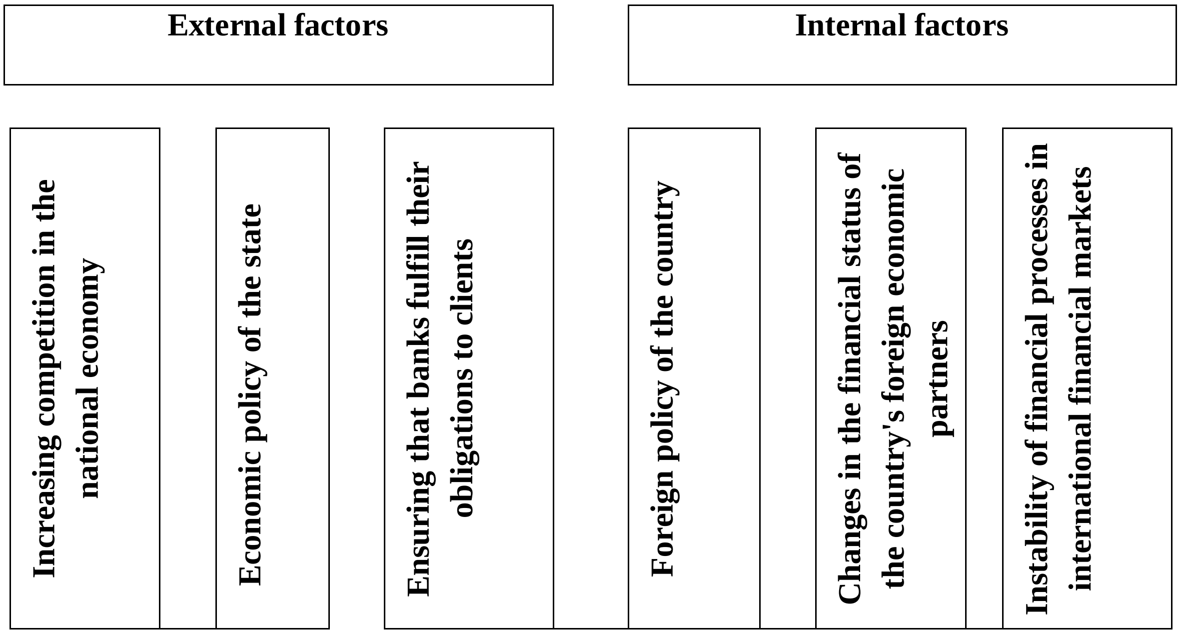


**Figure 2. Factors affecting bank risk management**

The factor of instability of financial processes in international financial markets, which is part of the external factors of bank risk management.

It should be noted that this factor is of particular importance in bank risk management. Because the negative changes in the international financial markets, the loss of stable rates of change will not affect the banking system of our republic by itself. An example of this is the global financial crisis observed in 2008.

In such situations of economic instability, people who have deposits in banks are in danger and try to withdraw their funds from the bank as soon as possible and focus on other properties.

As a result, banks have problems related to resource funds necessary for active operations. Also, in order to ensure the liquidity of the bank, to gain the trust of customers, it is necessary to take measures to withdraw the funds allocated to active operations before the due date.

In this regard, the instability of financial processes in the international financial markets is one of the main factors affecting risk management not only at the level of one bank, but for the entire banking system.

Changes in the financial situation of the country's foreign economic partners. As we have noted, in the conditions of economic globalization, the international division of labor is deepening, and mutual economic relations between financial institutions are developing.

As a result, the positive or negative situation in the activities of partner countries and financial institutions affects the activities of financial institutions of other countries.

If this is a negative situation, the level of banking risks will increase and it will be necessary for partner countries to take appropriate decisions on effective management of these risks.

In particular, this process is manifested in transactions between partner countries on investment, credit, deposit, currency relations. A change in the financial situation of foreign economic partners creates a risk that their interests will not be realized.

A negative change in the financial status of an investor or an external partner can create various levels of risks in banks. From this point of view, before establishing economic relations, commercial banks should conduct an in-depth analysis of the activities of financial institutions of partner countries, and at the same time, carry out continuous monitoring even after the establishment of economic relations.

A factor in the country's foreign policy.

The foreign policy conducted in the country serves as a basis for foreign investments and money flows. That is, the creation of privileges and opportunities in the country's tax and customs system, as well as in the banking system, will further increase the flow of foreign investments.

As can be seen from Figure 2, one of the main factors of internal risk management in commercial banks is the factor of ensuring the fulfillment of obligations of banks to clients.

It is known that almost 85-90 percent of the financial resources of commercial banks are formed at the expense of funds attracted from investors, creditor banks, customers and other subjects.

This, in turn, means that banks are able to fulfill their obligations to investors, depositors, creditor banks and customers at the very first appeal, not only that their trust in this bank is increasing, but also that it prevents risks related to the bank's obligations.

Risks related to obligations, in turn, arise in cases where there is a possibility that the bank will not be able to fulfill obligations on time and in full.

Increasing competition in the national economy. The strengthening of mutual competition in the national economy attracts participants in every sector of the economy.

Among other things, it requires economic entities operating in economic sectors to ensure their competitiveness.

In this competitive environment, banks offer a number of preferential conditions for attracting customers. The increase in preferential terms offered by commercial banks is directly proportional to bank risks, and their increase creates difficulties in risk management.

Economic policy of the country.

Commercial banks are directly and indirectly affected by the country's economic policy in risk management. Competition, supply and demand, selection, etc., which are market mechanisms in the economy, can be highlighted as direct effects.

Among these mechanisms, the competition mechanism has a direct impact on risk management in commercial banks. In particular, the full provision of competition between local financial and credit institutions encourages the development of their activities and the improvement of the transparency of risk management, as well as the improvement of the level of providing banking services to the population and clients.

In the market economy, the economic benefit from any activity is determined on the basis of relevant criteria, and the result of bank risk management is also assessed on the basis of relevant criteria, the main ones of which are presented in the figure below (Figure 3).

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| **Management of the provision of income on risky operations carried out by the bank** | **Manage the provision of the bank's fixed rate for non-performing loans** | **Management of the formation of sources of compensation for losses on banking risks** | **Managing the ratio between risk assets and stable funds** | **Ensuring proportionality of the scale of operations carried out by the bank to the financial condition of the bank** |

**Figure 3. Criteria for bank risk management**

Figure 3 shows a number of risk management criteria of commercial banks. In particular, in the management of bank risks, ensuring the proportionality of the bank's asset operations to passive operations, the possibility of obtaining the expected income on risky operations, ensuring the established norms of the volume of problematic loans, forming the necessary reserves to cover possible losses, ensuring the balance between risky assets and stable financial resources. are the main criteria.

**Conclusion**

Therefore, if the financial resources of commercial banks and the results of their activities are provided within the framework of these criteria, it is possible to conclude that their resources are effectively managed.

We formed the following conclusions and developments based on the researches and studies carried out on the necessity of risk management of commercial banks and their criteria:

- in the conditions of the market economy, it is not possible to ensure their financial stability and generate profits without rational, effective and transparent management of bank risks;

- a number of criteria were developed as an indicator of bank risk management; their implementation indicates that bank risks are at a safe level;

- The economic regulations introduced by the Central Bank are direct ways to reduce bank risks and ensure safety, and it takes a long time for banks to comply with the regulations by adapting to the changes taking place in the financial markets;

- criteria developed as the main result of risk management in commercial banks of our country should be widely implemented in practice.

In short, in the market economy, bank risk management is a requirement of socio-economic processes, and whether the results of risk management are positive or negative is evaluated based on a number of criteria.

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